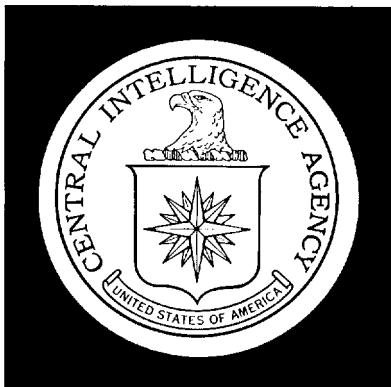


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# *Central Intelligence Bulletin*

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USAID, State Department reviews completed

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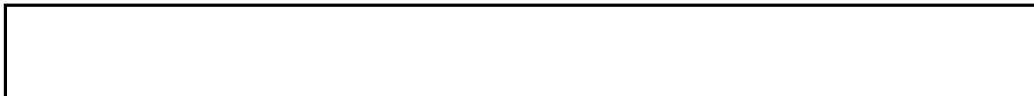
No. 0110/71  
8 May 1971

# *Central Intelligence Bulletin*

## CONTENTS

EGYPT: A cabinet reshuffle is reported imminent.  
(Page 1)

EAST PAKISTAN: The food situation. (Page 3)



INTERNATIONAL MONETARY SITUATION: Opposition to  
change in the mark. (Page 6)

ZAMBIA: Party factionalism (Page 7)

PERU: Squatters (Page 7)

USSR-THAILAND: Air service (Page 8)

SECRET

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EGYPT: The US Interests Section in Cairo believes that a major cabinet reshuffle is imminent.

The reputed scenario, [REDACTED]

[REDACTED] calls for Prime Minister Mahmud Fawzi to move up to the vice presidential post vacant since Ali Sabri's dismissal. The candidates for the prime minister's office reportedly include Foreign Minister Mahmud Riad, Minister for Industry, Petroleum, and Mineral Resources Aziz Sidqi, and Minister of Interior Sharawi Goma. All three now serve concurrently as deputy premiers.

Septuagenarian Fawzi, widely respected for his long and distinguished diplomatic career, has served largely as a figurehead in the government formed last October after Nasir's death. Riad is principally known for his capable stewardship of the Foreign Ministry over the past seven years. Sidqi has been the primary Egyptian negotiator in the trade and economic aid talks with the USSR.

Among those mentioned in the alleged realignment, only Goma is known to have a strong political base. His control of the security apparatus places him in the inner circle of the three or four most powerful men in the regime, but it has also earned for him the enmity of some segments of the population, particularly the students. Unlike the others, who are essentially subject to Sadat's wishes and control, Goma as prime minister would expect to exercise authority in his own right and to take public positions of his own, even though his actions to date identify him as a supporter of the President. [REDACTED]

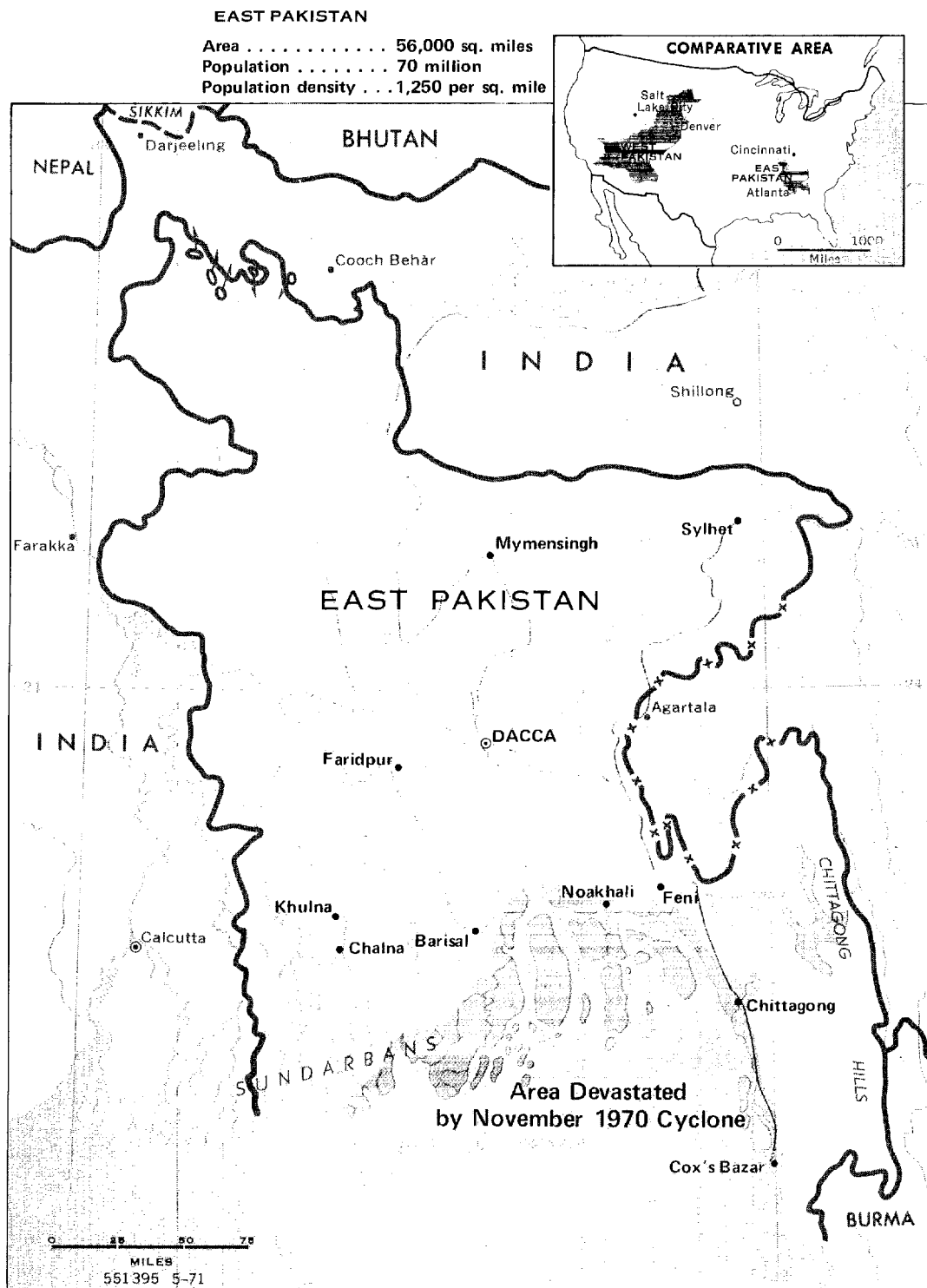
8 May 71

Central Intelligence Bulletin

1

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EAST PAKISTAN: The food situation is becoming critical in many sectors.

Although Islamabad insists that food stocks in the East are adequate and has refused so far to allow international relief agencies like the Red Cross into the province, senior government officials in West Pakistan have admitted the possibility of famine in certain areas later this year. The coastal area devastated by the November 1970 cyclone is probably in the worst shape at the present time, and government stocks for that area are almost exhausted. The military, however, claimed to have made one airdrop of foodgrains earlier this week.

Official stocks appear sufficient to maintain urban areas until early July, but distribution of foodgrains in rural areas is the immediate problem. Extensive damage to East Pakistan's internal transportation network as well as priority given to military shipments make distribution from government warehouses almost impossible without extreme emergency measures.

The major port of Chittagong has recently started operating after being closed for more than a month, but only about 5,000 tons of foodgrains are being unloaded per week compared with a port capacity of about 40,000 tons. Ships containing 80,000 tons of grain were lying at anchor unable to unload. The Pakistani Government has diverted some of these ships to Karachi in West Pakistan, as well as most of an additional 200,000 tons of grain en route to East Pakistan. Unloading is being hampered by the lack of additional storage space because there has been no distribution from Chittagong, even to Dacca, the capital. No foodgrain unloading has been reported at the smaller port of Chalna yet. The US has temporarily suspended shipment of 300,000 tons of PL 480 wheat until the backlog can be unloaded and distributed.

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8 May 71

*Central Intelligence Bulletin*

3

SECRET

SECRET

There is increasing concern about the size of next autumn's rice crop, now being planted, which accounts for about one quarter of the total annual harvest. With many farmers in hiding or fleeing from the army, and fertilizer and pesticide distribution disrupted, a smaller crop is in prospect. The Awami League, which hopes to minimize the leverage that control of imported food could give the government and to increase the government's foreign exchange problems, is urging farmers to plant rice instead of jute, East Pakistan's main cash crop. Even taking such a shift into account, USAID estimates a decline of about 300,000 tons or ten percent in the rice crop this September.

25X1

8 May 71

Central Intelligence Bulletin

4

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25X1

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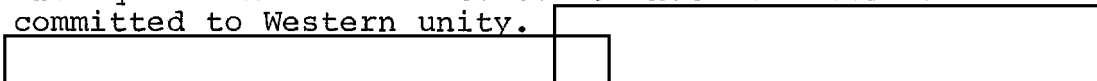
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\*INTERNATIONAL MONETARY SITUATION: Change in the parity of the German mark, even in the form of a temporary official "float," is facing opposition both at home and abroad.

German businessmen, bankers, trade unionists, and farmers object to a change. There is fear that exports will be reduced at a time when the German economy is showing signs of a slowdown, and farmers complain that agricultural prices received under the Common Agricultural Policy will be reduced. Economics Minister Karl Schiller, who first proposed the float, apparently could not win support of the West German cabinet for a decision to float the mark unilaterally.

At Thursday's EC Monetary Committee meeting, Germany's partners opposed a revaluation of the mark, a floating of the mark, or a floating of all Community currencies. The finance ministers of the Six, meeting today in Brussels, will look for a compromise solution. They will probably recommend that Germany attack the inflow by imposing a 100-percent reserve requirement for, and stop paying interest on, foreign deposits. Other possible measures include restricting German corporate borrowing in the Eurodollar market and reducing the volume of Community central bank reserves placed in Eurodollar accounts.

If the solution acceptable to the Germans is not worked out this weekend, a floating of the mark cannot be ruled out despite the opposition from other Community partners. On the other hand, Chancellor Brandt surely recognizes that to act without the approval of the rest of the Community would put into question his efforts to demonstrate that he is committed to Western unity.



\*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Defense Intelligence Agency, Department of Defense.

8 May 71

Central Intelligence Bulletin

6

SECRET

NOTES

ZAMBIA: The general conference of the ruling United National Independence Party (UNIP) which begins today is expected to result in decisions that will help President Kenneth Kaunda control party factionalism. Party unity has been seriously strained by tribal-oriented politicking ever since free elections were held for the UNIP central committee in 1967. To curb this tribalism, a new party constitution has been drawn up that is designed to ensure that all major party factions will be represented, but with none dominant, in the party's leadership when new elections to the central committee are held later in the week. The draft document, which probably will be passed by conference delegates with only minor amendments, requires party leaders to support a balanced "official" slate of candidates.

\* \* \* \*

PERU: The military government faced its first incident of mass violence in the Lima area since taking power in October 1968, when police clashed with some 8,000 squatters on 5 May. One person was killed and 64 were injured, mostly policemen, when police attempted to dislodge the squatters who had seized an area just outside the city. To avoid further bloodshed the police were withdrawn and the government announced that the squatters would be relocated in another area. This action seems to have defused the situation but the incident has embarrassed the government, which claims to be the defender of the disadvantaged.

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8 May 71

Central Intelligence Bulletin

7

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USSR-THAILAND: Moscow has concluded a civil air agreement with Thailand. Signature of an agreement had been delayed for several years because Bangkok insisted that a trade pact--signed late in 1970--precede conclusion of the air negotiations. Aeroflot reportedly has been given rights by Bangkok to fly on to several cities in the Far East and Australia. Moscow has been trying to get landing rights from Canberra for several years as part of the USSR's efforts to establish round-the-world service, but the Soviets have thus far been unsuccessful. Thai International will have the reciprocal right to fly from Moscow to several west European cities as well as to New York.

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8 May 71

*Central Intelligence Bulletin*

8

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